



FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This publication (Volume 4, Issue 1) is one of two issues to be released this month. This issue is focused on the FY 16 major budget actions and revenue measures enacted from the 2015 Legislative Session.

The next publication will be released in late July and marks the beginning of the regular monthly release of Focus on the Fisc. As you read Focus on the Fisc remember that it is your publication. We welcome your feedback to help the Fiscal Office more useful to you.

FOCUS POINTS

Revenue Overview (2015 Session)

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A number of bills affecting state revenue collections were enacted this past legislative session. As a whole, these bills are estimated to generate \$719.9 M of additional tax revenue in FY 16. These additional revenues largely support the supplemental appropriations contained in Section 18(D) of the general appropriations bill. A substantial portion of those revenues, \$464.4 M, will provide budget support through dedicated means of finance, leaving \$255.5 M as state general fund-direct financing. Table 1 on the next page lists the major revenue generating bills along with each FY 16 revenue estimate and other key aspects of the bills.

Various aspects of these measures are noteworthy in addition to the estimated amount of revenue associated with them. Probably the most noteworthy aspect of a number of the bills is their applicability provision. Those measures applicable to "all returns from July 1" (Acts 103, 109, 123, 125 and 133) apply their changes to the affected credits, deductions, or claims received by the state on or after 7/1/2015, regardless of the tax year to which the tax return or claim relates. This application was required to generate the level of revenue necessary in FY 16, and was implicit in the Executive

Budget funding proposal that began the budget construction process. Without this applicability, the majority of revenue associated with these particular bills would not be collected until FY 17 and later.

Much of this delayed effect is attributable to returns filed pursuant to an extension, especially corporate returns and complex individual returns. To ameliorate the effect on those filers in the first year of implementation, returns filed under extension in FY 16 are allowed to recoup the disallowed portion of the credit or deduction evenly over a three-year period on returns for each of the taxable years beginning during calendar years 2017, 2018, and 2019 (Acts 109, 123 and 125). For many filers, this effectively delays recoupment into FY 18, FY 19, and FY 20. In addition, amended returns filed on or after 7/1/2015, with properly claimed credits or deductions on the original return filed prior to 7/1/2015, are not subject to the changes in these bills.

While most of the bills make permanent changes (Acts 94, 103, 109, 110, 126, 131, 133, and 147), certain measures are only effective for three years (Acts 109, 123, 125 and 134), and the suspension of exemption to

Table 1
Summary of Major Revenue Bills
(in millions)

		FY 16	Duration	Applicable	Recoupment
Act 125 / HB 629	Income & Franchise Tax Credits Cut 28%	\$31.5	3 years	All Returns From July 1	3 years
Act 123 / HB 624	Corporate Income Tax Exclusions and Deductions Cut 28%	\$122.0	3 years	All Returns From July 1	3 years
Act 133 / HB 805	Five-Year Carryforward of 25% of Inventory Credit	\$129.0	Permanent	All Returns From July 1	None
HCR 8	Suspend Business Utilities Exemption to 1% of Sales Tax	\$107.2	8/27/2016	Transactions From July 1	None
Act 94 / HB 119	Increase Cigarette Tax by 50¢/pack plus vapor products	\$106.4	Permanent	Transactions From July 1	None
Act 109 / HB 402	Equalize Credit for Taxes Paid to Other States	\$34.0	3 years	All Returns From July 1	3 years
Act 103 / HB 218	Eliminate Net Operating Loss Carry-Backs	\$29.0	Permanent	All Returns From July 1	None
Act 131 / HB 779	Cap Solar Tax Credit Program	\$19.0	Permanent	All Claims From Jan 1	None
Act 126 / HB 635	Enterprise Zone Restrictions	\$5.0	Permanent	All Claims From July 1	None
Act 134 / HB 829	Modify / Cap Film Tax Credit Program	\$77.0	3 years	All Claims From July 1	None
Act 110 / HB 445	Certificates Of Title Tax Increase	\$59.5	Permanent	Transactions From July 1	None
Act 147 / SB 271	Reduce Motor Fuels Tax Remittance Discounts	\$6.0	Permanent	Transactions From July 1	None
Act 109 / SB 93	Prohibits Education Credit If Tuition Deduction Taken	\$2.3	Permanent	From Tax Year 2015	None
	Interaction Between Act 123 and Act 103	(\$8.0)			
	Total Additional Revenue Generated	\$719.9			
HCR 8	Business Utilities Sales Tax Dedicated To Tourism District	(\$4.2)			
Act 147 / SB 271	Motor Fuels Discounts Dedicated To TTF	(\$6.0)			
Act 94 / HB 119	Tobacco Tax Dedicated To Medicaid Fund	(\$106.4)			
	Tobacco Tax Reduces Existing Dedications	\$2.2			
Act 109 / SB 93	Higher Education Initiatives Fund Dedication	(\$350.0)			
	Net Additional General Fund Revenue	\$255.5			

1% of state sales tax on purchases of business utility services (HCR 8) is effective for only a little more than one year. The temporary nature of these measures results in a step-down of expected revenue in FY 17, with significant fall-off in subsequent years as recoupment provisions kick in and then outright inapplicability occurs. Thus, a substantial portion of the revenue raised for FY 16 will have to be replenished for subsequent fiscal years, or comparable budget reductions will have to be made.

Modifications to the inventory tax credit (Act 133) are noteworthy in that the bill actually converts 25% of the credit benefit that would otherwise be refundable to nonrefundable status and allows a five-year carry-forward of annual unrealized benefits. While this exposes the state fisc to these benefits in the future with regard to individual filers, in the aggregate there is substantially more annual credit benefit available than annual tax liability to offset. Therefore, the carryforward portion is essentially a permanent net revenue gain to the state. Something similar was done with the elimination of the net operating loss carry-back option (Act 103). An additional five years of carryforward option was allowed to an existing fifteen-year carryforward option. Since there is substantially more net operating loss deduction available than annual tax liability to offset, even with existing fifteen-year carryforward option, the changes provided by this bill also result in essentially a permanent net revenue gain to the state. While not expected to materially effect net state revenue receipts, the ten-year carryforward option available to taxpayers claiming film tax credits was also shortened to five years (Act 134).

Other noteworthy aspects of particular measures include program level maximum amounts authorized to be realized each year. For example, the costs of the overall film tax credit program are capped at \$180 m per fiscal year (Act 134). All claims for tax credit benefits filed during FY 16, FY 17, and FY 18 will be paid in full until the program maximum for each fiscal year is reached. Excess claims in each year are put first in line for the following year's program maximum. The direct state buyback of credits at 85% of face value is also completely prohibited during FY 16. The solar tax credit program is capped at \$19 M for outstanding leased system claims during FY 15, then a \$10 M cap is in place for leased and sale systems each in FY 16 and FY 17, dropping to \$5 M each for claims filed before 1/1/2018 (Act 131). The Enterprise Zone program is denied to retail trade and food and drinking establishments starting with FY 16, but applicants with advance notifications filed prior to July 1 are still allowed their benefits (Act 126). The state gains revenue in FY 16 by requiring these participants to wait until FY 17 to claim benefits, but then net revenue losses occur in FY 17 as these benefit claims catch up.

A technical downward adjustment has to be accounted for due to the interaction of two of the measures. Act 103 completely eliminates the carry-back option for net operating loss deductions; by itself generating some \$29 M. Act 123 reduces net operating loss deductions by 28%; by itself generating \$122 M. The revenue effects of those two measures cannot occur in their entirety simultaneously. Combined, the two measures generate some \$8 M less than the sum of their stand-alone effects.

A large portion of the total revenue generated finances the budget by flowing certain amounts through special funds or mechanisms. Of the sales tax collected on business utility transactions (HCR 8), \$4.2 M is actually revenue to the Tourism Promotion District, traditionally treated as a dedication of state receipts in the budget process. All \$6 M of the additional motor fuels tax remittances attributable to the reduced discounts for timely filing (Act 147) flow to the Transportation Trust Fund. Similarly, all \$106.4 M expected from the tax increase on cigarettes and vapor products (Act 94) is budgeted through the newly created Tobacco Tax Medicaid Match Fund. As a side effect of the negative behavioral effect of the cigarette tax increase, the average yield of existing levies are reduced, and two existing dedications that are funded by existing levies are consequently reduced by \$2.2 M. This has the effect of enhancing net general fund receipts.

The \$350 M dedication of funds through the existing Higher Education Initiatives Fund is associated with what was referred to during the session as the SAVE credit (Student Assessment for a Valuable Education, within Act 109). This measure was purported to offset a portion of the additional tax revenue generated during the session by granting a credit against higher education costs for all students enrolled in public higher education institutions. An assessment is imposed on enrollees and a matching credit is granted based on the average Louisiana household liability for income taxes, sales taxes, and motor fuels taxes. This amount is multiplied by total enrollees to determine an aggregate amount to provide higher education, limited to a maximum of \$350 M per year. At the individual level, no assessment is paid by enrollees and no tax liabilities are reduced. Since the total amount of funds that flows through this special fund is determined by the annual amount appropriated, this is essentially a re-characterization of general fund revenue as dedicated revenue.

Finally, in addition to the tax revenues discussed above, various additional fees and charges were also enacted. These totaled some \$46.7 M for FY 16, with \$7.5 M associated with statutory dedications and \$39.2 M of agency SGR. These funds will support the operations of various specific agencies and programs.

GENERAL GOVERNMENT

FY 16 SGF Post-Session Status

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Act 16 (General Appropriations Bill), Act 121 (Funds Bill), Act 56 (Supplemental Appropriations Bill) and Act 26 (Capital Outlay Bill) all played a role in crafting the FY 16 operating budget. Act 121 transfers approximately \$231 M of various resources for utilization in the FY 16 budget or the FY 15 budget via the Supplemental Appropriations Bill (see note below). Other noteworthy bills that played a role in the FY 16 budget development are the revenue measures discussed in the Revenue Overview (2015 Session) included within this edition. As of this writing, these additional revenues have not yet been incorporated into the official SGF revenue forecast for FY 16. Based upon the latest adopted revenue forecast, the enrolled fiscal notes (accounting for potential interactions), the FY 16 SGF budget appropriates approximately \$4.6 M more than anticipated revenue (See Table 2).

Note: The Supplemental Appropriations Bill (Act 56) provides various appropriations for FY 15 that indirectly impact the FY 16 budget. The legislation appropriates various resources (prior year state surpluses, Overcollection Fund and SGF) for Debt Defeasance, the Budget Stabilization Fund and the Unfunded Accrued Liability (UAL).

Table 2

FY 16 SGF FISCAL STATUS

FY 16 SGF REVENUE:	FY 2016
SGF REC - 5/14/2015	\$8,596,300,000
Act 103 (HB 218)	\$29,000,000
Act 109 (HB 402)	\$34,000,000
Act 110 (HB 445)	\$59,500,000
Act 123 (HB 624)	\$122,000,000
Act 125 (HB 629)	\$31,500,000
Act 126 (HB 635)	\$5,000,000
Act 131 (HB 779)	\$19,000,000
Act 133 (HB 805)	\$129,000,000
Act 134 (HB 829)	\$77,000,000
HCR 8	\$103,000,000
Act 140 (SB 93)	\$2,300,000
Net Interactions Among Revenue Bills	(\$5,800,000)
Riverboat Gaming Enforcement Fund Transfer (Act 121)	\$1,800,000
LA Emergency Response Network Fund Transfer (Act 121)	(\$200,000)
Riverboat Gaming Enforcement Fund Transfer (Act 121)	\$17,000,000
LA Fire Marshal Fund (Act 121)	\$4,000,000
Environmental Trust Fund (Act 121)	\$2,000,000
Hazardous Waste Site Cleanup Fund (Act 121)	\$2,500,000
Insurance Verification Fund (Act 121)	\$3,000,000
SAVE Program SGF Dedication (Act 140)	(\$350,000,000)
Total FY 16 SGF Resources Available	\$8,881,900,000
FY 16 SGF REQUIRED/APPROPRIATED EXPENDITURES:	
Debt Service (Non-Appropriated Req.)	\$193,397,230
Interim Emergency Board (Non-Appropriated Req.)	\$1,758,021
Revenue Sharing (Non-Appropriated Req.) (Act 132)	\$90,000,000
General Appropriations (Act 16)	\$8,368,195,745
Ancillary Appropriations (Act 46)	\$0
Judicial Appropriations (Act 66)	\$159,838,908
Legislative Appropriations (Act 76)	\$73,352,811
Capital Outlay Appropriations (Act 26)	\$0
Total FY 16 SGF Requirements/Appropriations	\$8,886,542,715
FY 16 SGF Revenue Less Requirements/Appropriations	(\$4,642,715)

FY 17 Replacement Revenues

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Although HR 7.19 contains a definition of “one-time money,” the rule itself is not indicative of the financing decisions that will have to be made in FY 17 relative to the current structure of the FY 16 budget. Due to this issue, the LFO is providing you with a list of the potentially significant FY 17 financing replacements that will have to be made as a result of the proposed FY 16 budget. Table 3 below is a listing of resources being utilized in FY 16 that will likely require another revenue source in FY 17. The \$542 M of financing needs are in addition to any other continuation budget requirements not yet resolved in the FY 16 budget. These additional funding requirements will likely result in an anticipated funding shortage in FY 17 that could exceed \$542 M. The \$542 M potential financing replacement in FY 17 is a reduction compared to the amount of FY 16 financing replacement of approximately \$1 B.

Table 3

State Agency	Potential Financing Replacement in FY 17	FY 16 Funding Sources
Medicaid Program	\$52,000,000	2013 Tax Amnesty Fund
Medicaid Program	\$114,556,548	Overcollections Fund (Various Sources)
Debt Defeasance - SGF	\$124,958,094	FY 14 Cash Position
Bond Premium - SGF	\$29,041,496	Net Bond Premium from 2014 D Sale
Bond Premium - SGF	\$37,720,878	Net Bond Premium from 2015 A&B Sale
WISE	\$24,300,000	CDBG Hurricane Disaster Recovery Funds
HCR 8 - SGF*	\$103,000,000	Suspends business utilities exemptions from adoption to 60 days after the 2016 Regular Legislative Session.
Riverboat Gaming Enforcement Fund transfer into SGF	\$18,800,000	HB 566 transfer into the SGF (fund sweep)
LA Fire Marshal Fund transfer into SGF	\$4,000,000	HB 566 transfer into the SGF (fund sweep)
Environmental Trust Fund Transfer into SGF	\$2,000,000	HB 566 transfer into the SGF (fund sweep)
Hazardous Waste Site Clean up Fund transfer into SGF	\$2,500,000	HB 566 transfer into the SGF (fund sweep)
Insurance Verification Fund transfer into SGF	\$3,000,000	HB 566 transfer into the SGF (fund sweep)
LA Lottery Corporation	\$5,900,000	Lottery Reserves
LA Lottery Corporation	\$20,000,000	Unclaimed prizes
TOTAL	\$541,777,016	

*The Table above assumes that the Revenue Estimating Conference (REC) will recognize the SGF generated from HCR 8 as part of the overall sales tax revenue forecast.

Ad Hoc SGF Equivalent Resources (Overcollections Fund) Utilized in FY 15 & FY 16

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Act 16 (HB 1) includes an aggregate Overcollections Fund allocation in the amount of \$114,556,548, which is currently appropriated in the Medicaid Program. The original source of these funds is various anticipated FY 15 collections that may be carried forward into FY 16 for expenditure. Information provided on the next page is a depiction of the Overcollections Fund status based upon the latest adopted REC revenue forecast, Act 121 (HB 566), Act 56 (HB 800) and Act 16 (HB 1).

<i>Adopted Revenue Forecast (5/14/2015)</i>	<i>FY 15 Revenues</i>
FY 15 Beginning Balance	\$217,500,000
Revenue Carry Forward from FY 14	\$102,240,000
Self Insurance Fund (Act 121)	\$12,000,000
Insurance Verification System Fund (Act 121)	\$25,576,380
Riverboat Gaming Enforcement Fund (Act 121)	\$11,874,770
LA Building Corporation (Act 121)	\$500,000
Dept. of Revenue SGR (Act 121)	\$11,100,000
Employment Security Admin. Account (Act 121)	\$3,540,000
Penalty & Interest Account (Act 121)	\$4,200,000
Telephone Company Property Assessment Relief Fund (Act 121)	\$50,000,000
LA Public Finance Authority (LPFA)(Act 121)	\$2,300,000
Act 646 of 2014, GEMS Transfer	\$17,972,573
<u>Total FY 15 Projected Fund Revenues</u>	<u>\$458,803,723</u>
<i>FY 15 Overcollections Expenditures</i>	<i>FY 15, Act 14</i>
Act 14 Enrolled	\$270,101,856
BA-7 (Mid-Year Cut 1 Back Fill, Dec. 2014)	\$47,000,000
BA-7 (Mid-Year Cut 1 Back Fill, April 2015)	\$28,502,827
BA-7 (Mid-Year Cut 2 Back Fill, Jan. 2015)	\$32,506,438
Less: HB 800 (Act 56) House Appropriations Committee Action	<i>(\$53,436,628)</i>
HB 800 (Act 56) House Floor Action	\$17,972,573
HB 800 (Act 56) Senate Committee Action	\$6,196,965
Less: HB 800 (Act 56) Senate Floor Action	<i>(\$5,300,000)</i>
<u>FY 15 Total Overcollections Fund Appropriation</u>	<u>\$343,544,031</u> (recurring)
FY 16 Overcollections Expenditures (HB 1 Enrolled)	\$114,556,548
<u>Total FY 15 & FY 16 Appropriated/Recommended</u>	<u>\$458,100,579</u>
Current Projected Unappropriated Fund Balance	\$703,144

Based upon Act 16 (HB 1), Act 56 (HB 800), Act 121 (HB 566) and the latest adopted revenue forecast, the Overcollections Fund has an FY 16 ending year unappropriated fund balance of approximately \$0.7 M.

Note: Based on the latest adopted revenue forecast (5/15/2015), there are currently no anticipated FY 16 resources projected to be collected for the Overcollections Fund. The unexpended FY 15 resources will be utilized to fully fund the FY 16 appropriation of approximately \$114.6 M.

SGF FY 14 Prior Year Cash Position

As previously discussed, one of the major resources utilized to finance the FY 16 budget includes the FY 14 SGF prior year cash position (\$178,511,565). These resources were utilized for the debt defeasance (\$124,958,094), deposit into the Budget Stabilization Fund (\$44,627,892) and payment toward the UAL (\$8,925,579).

Note: The surplus calculation method utilized by the Division of Administration (DOA) was modified in the Fall 2014. Based on the FY 14 SGF Fiscal Status Summary presented by the DOA to the Joint Legislative Committee on the Budget on 10/17/2014, FY 14 SGF expenditures were approximately \$140.6 M greater than SGF receipts, budgeted transfers and carry-forwards. This operational budget deficit was financed by the SGF's cash liquidity, accumulated over a number of years from unexpended fee and interagency transfer collections that revert to the SGF at the end of the fiscal year. These funds make up the cash position of the SGF and are comparable to the checking account balance that many households have at the end of each month's bank statement reconciliation.

After covering FY 14 obligations the remaining cash position at the end of the fiscal year was approximately \$178.5 M. These monies were utilized in supporting the cash flow requirements of FY 15 expenditures. This change in calculation methodology is a change from operational receipts versus expenditures approach (annual profit and loss statement employed since 2002) to assets versus liabilities balance sheet approach. The Legislative Auditor completed its official audit of the new method and confirmed the \$178.5 M of cash resources was available. Therefore, these resources were indirectly utilized in the confecting of the FY 16 budget.

Supplementary Section (Preamble 18(D))

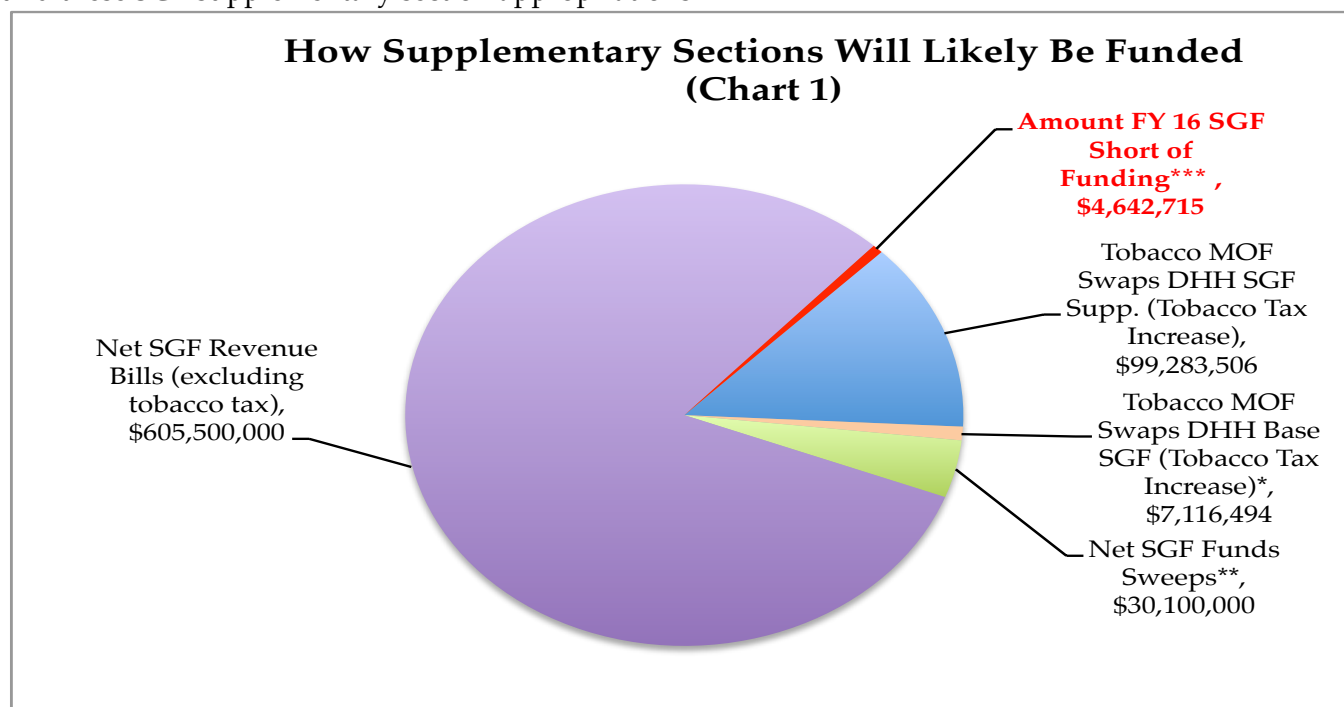
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Included within Act 16 (HB 1) is a Supplementary Section that appropriates various expenditures throughout state government in the event various revenue measures are enacted or the official SGF forecast for FY 16 is increased above the 5/14/2015 official forecast. Due to these legislative measures being enacted (see Revenue Overview 2015 Session) and even though Revenue Estimating Conference (REC) has not met as of this writing, the SGF appropriations are currently a part of the overall base SGF budget for FY 16. However, action by REC could change these appropriations as the current language contained within Preamble Section 18(D) provides for a pro-rata share funding allocation if the REC were to adopt revenues in some amount less than what is contained within the fiscal notes for these bills. **Note:** The supplementary section also includes federal appropriations, which is not included in the Table 4 below. Table 4 only includes SGF appropriations contained within this section of Act 16.

Table 4

DEPT	AGENCY	DESCRIPTION	SGF SUPP. SECTION	% of TOTAL
04-DOS	04-139	Registrar of Voter vacancies & related expenditures	\$997,000	0.13%
	04-139	Museum & Other Operations Program	\$1,700,000	0.23%
	04-139	Voter Outreach Services	\$355,585	0.05%
04-DOS TOTAL			\$3,052,585	0.41%
04-AGRI	04-160	Restores Cuts from Executive Budget	\$3,921,447	0.53%
04-AGRI TOTAL			\$3,921,447	0.53%
06-CRT	06-262	Library Services Program	\$300,000	0.04%
	06-263	Museum Program	\$100,000	0.01%
	06-264	State Parks	\$7,000,000	0.94%
	06-267	Marketing Program	\$400,000	0.05%
06-CRT TOTAL			\$7,800,000	1.05%
09-DHH	09-303	Families Helping Families Centers	\$170,000	0.02%
	09-306	Additional SGF that can be utilized for State Match	\$41,408,637	5.57%
	09-306	Payments to Private & Public Providers for LSU Physicians	\$7,004,981	0.94%
	09-306	Funding for UPL/FMP payments and UCC payments to partner hospitals	\$35,994,388	4.84%
	09-306	Funding for UPL/FMP payments to Children's Hospital & UCC payments for the New Orleans partner hospital	\$9,455,500	1.27%
	09-306	Payments to Private Providers Program	\$4,500,000	0.61%
	09-340	Early Steps	\$500,000	0.07%
	09-340	LA Assistive Technology Access Network (LATAN)	\$250,000	0.03%
09-DHH TOTAL			\$99,283,506	13.36%
19-HIED	19-671	Board of Regents	\$548,591,363	73.82%
	19-671	Pennington Biomedical Research Center	\$4,000,000	0.54%
	19-600	LSU Health Sciences Center in New Orleans	\$2,500,000	0.34%
	19-600	LSU Health Sciences Center in New Orleans for the LA Cancer Research Center	\$490,000	0.07%
	19-600	LSU Health Sciences Center in Shreveport	\$31,100,000	4.18%
	19-600	Legacy Costs of EA Conway & Huey P Long Medical	\$3,755,947	0.51%
	19-600	LSU Ag Center	\$2,000,000	0.27%
	19-615	SU System	\$4,500,000	0.61%
	19-620	Grambling University	\$2,000,000	0.27%
	19-649	Allocated to the lowest funded LCTCS institution	\$5,000,000	0.67%
19-HIED TOTAL			\$603,937,310	81.27%
19-SPECIAL	19-695	MFP - Supplemental Course Allocation	\$2,621,961	0.35%
	19-695	MFP - Teacher pay raise	\$16,202,485	2.18%
19-SPECIAL SCHOOLS TOTAL			\$18,824,446	2.53%
19-HCSD	19-610	Health Care Services Division for legacy costs	\$6,323,421	0.85%
19-610 TOTAL			\$6,323,421	0.85%
TOTAL SGF ONLY FY 16 SUPPLEMENTARY SECTION APPROPRIATION (PREAMBLE 18(D))			\$743,142,715	100.00%

Due to the appropriations listed in the table on the previous page being funded above the current adopted SGF base forecast, these items will likely be funded with the revenue measures enacted during the 2015 Legislative Session. Chart 1 below is an illustration of the various sources that will likely be utilized to fund these SGF supplementary section appropriations.



*Total SGF Supplementary Section appropriations contained within Act 16 (HB 1) for DHH equate to a total of \$99,283,506. Since the FY 16 estimated revenue that may be generated from the increased tobacco tax is \$106.4 M, these resources will be utilized to supplant base SGF in addition to funding all \$99.3 M of SGF appropriations contained within the SGF Supplementary Section.

**The \$30.1 M represents the net gain to the SGF from various statutory dedicated funds sweeps to the SGF (funds sweeps) contained in Act 121 (HB 566 – Funds Bill).

***As mentioned in the FY 16 SGF Post-Session Status article, the \$4.6 M represents the amount of the FY 16 SGF shortfall that has not yet been addressed.

Department of Public Safety Legislative Changes

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During the 2015 Legislative Session, multiple bills were enacted that affected the Department of Public Safety (DPS) and the Office of State Police (OSP). Fees related to the Office of Motor Vehicles (OMV) were increased and the state police pay raise was fully implemented. Below are the changes to DPS.

Fee Increases

Fees paid to OMV for certificates of title, salvage titles and driving records were increased. The previous fee for certificates of title and salvage titles was \$18.50. Act 110 (HB 445) of 2015 increased the fee by \$50 to \$68.50. Driving records were previously \$6 and Act 111 (HB 448) of 2015 increased the fee by \$10 to \$16. The new fee amounts will increase collections by approximately \$81.3 M annually.

Based on a three-year historical average (FY 12 – FY 14) taken from the OMV budget request, there are approximately 1,190,000 certificates of title granted and 2,180,000 official driving record requests annually. Certificates of title fees generated \$22 M (1.19 M titles x \$18.50 fee) annually. To the extent the number of titles issued remain static, the new fees would generate \$81.5 M (1.19 M titles x \$68.50 fee) annually, an increase of \$59.5 M, which would flow into the state general fund (SGF). Official driving record requests generated \$13.08 M (2.18 requests x \$6 fee) annually. To the extent the number of requests remain static, the new fee would generate \$34.88 M (2.18 M requests x \$16 fee) annually, an increase of \$21.8 M, which would be classified as self-generated revenue (SGR).

The \$59.5 M increase generated by Act 110 is new state general fund revenue that can be used throughout state government. The \$21.8 M increase generated by Act 111, classified as SGR, will be used by OSP to swap for Transportation Trust Fund (\$20 M) and Riverboat Gaming Enforcement Fund (\$1.8 M).

State Trooper Pay Raise

Act 16 (HB 1) of 2015 includes language that provides for \$11 M to be paid out of the Debt Recovery Fund to fund additional pay raises for state troopers. Act 414 (HB 638) of 2015 provides that the Office of Motor Vehicles declare some outstanding OMV debts as “final delinquent debt” and turning such debt over to the Office of Debt Recovery (ODR). Debt collected by ODR will be deposited into the Debt Recovery Fund. Based upon LFO estimates using historical data provided by OMV, the ODR may potentially collect between \$13 M and \$19 M based upon the debts owed to OMV and the collection percentages associated with certain debt, of which \$11 M is currently appropriated in Act 16.

A BA-7 was approved at the January 2015 meeting of the Joint Legislative Committee on the Budget (JLCB) for \$10.1 M to fund the state trooper pay raise. The amount approved by JLCB equated to a 20% pay raise as opposed to the 30% pay raise that was initially requested. The annualization of this pay raise totals \$24 M (\$14 M salaries + \$10 M related benefits) and is included in Act 16 of 2015. The pay raise approved by JLCB is funded in FY 16 with the Insurance Verification Fund created by Act 641 of 2014. The \$11 M appropriation in Act 16 provides enough funding to implement the full 30% pay raise.

Insurance Verification System Fund

Beginning in FY 16, the Insurance Verification System Fund may also be utilized by district attorneys, Department of Corrections (DOC), and for other law enforcement purposes if funding is available.

Act 641 of 2014 increased the fees for motorists that operate a vehicle without automotive liability insurance. Based on REC projections (5/15/2015), the Insurance Verification System Fund may collect \$36.9 M in FY 16. After DPS expenses of \$25 M (\$24 M state trooper pay raise + \$1 M real-time database), there would be \$11.9 M remaining in the fund. Current law states that \$7 M would be used by the DOC and \$1 M would be used to fund assistant district attorneys. After these expenses, \$3.9 M would remain in the fund. However, the current fund projection could be overstated based upon the revenue interactions discussed below.

Fund Interaction

Based upon Act 414 of 2015, the amount collected by the Insurance Verification Fund may be impacted once fees owed to OMV are considered final debt. As provided in Act 414, final debt is the amount due which is no longer negotiable and that the debtor has no further right of administrative and judicial review. Prior to Act 414, any fees that would have been paid to OMV after 60 days would have been classified as self-generated revenue (original fee) and statutory dedicated revenue (Act 641 of 2014 increased the original fee and the increase is deposited into the Insurance Verification System Fund). The majority of debt that would be collected by ODR is insurance cancellation fees and notice of violations. These are the same penalties that fund OMV general operations and the Insurance Verification System Fund. Since the Debt Recovery Fund and the Insurance Verification System Fund collect the same fees, the potential exists for one fund (Insurance Verification System Fund) to not collect as much revenue as previously collected as a result of this legislation.

Previously, any debts owed to OMV were collected by OMV and deposited into the fund. However, as a result of Act 414 of 2014, any debt older than 60 days that is owed to OMV will be collected by ODR and deposited into the Debt Recovery Fund upon collection of which \$11 M of such collections are currently appropriated for state trooper pay raises in Act 16. Therefore, through ODR, Act 414 essentially dedicates a portion of debt older than 60 days to OSP that may have otherwise flowed into either OMV SGR or the Insurance Verification System Fund. To the extent the Insurance Verification System Fund does not collect the projected amount (\$36.9 M) as a result of Act 414, funding for DOC and district attorneys may not be available. In the event collections are drastically reduced, funding for the state police pay raises approved in January 2015 may not be available as well.

Additional analysis on the full impact of Act 414 across state government will be provided in the next edition of *Focus on the Fisc*.

EDUCATION

K-12 Education: Minimum Foundation Program (MFP)

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The Minimum Foundation Program (MFP) is the major source of state funding to local schools. FY 16 funding includes combined adjustments of \$84.7 M in both base funding and supplementary budget recommendations. The budget includes \$34.4 M for enrollment adjustments for an estimated 4,748 students increase, \$6 M to align the formula with the current year baseline and \$44.2 M for recommendations of the MFP Task Force. Total FY 16 funding is \$3.678 B (\$3.391 B SGF, \$177.4 M Lottery Proceeds Fund and \$109.7 SELF Fund).

Citing budgetary concerns, the Senate Education Committee deferred the BESE recommended funding formula (HCR 18). As such, Act 16 (HB 1) base funding does not include the \$36.2 M for the recommended per pupil increase (\$1.375%). Instead, this funding is included in the supplementary funding section; \$20 M will be allocated from the Lottery Proceeds Fund using unclaimed prize monies. (These funds historically have been reinvested by the Lottery Corporation into lottery prizes and will be available after 1/1/2016). Additionally, \$16.2 M is contingent on revenues generated from various instruments approved by the legislature or any additional revenues recognized by REC. This \$36.2 M shall be allocated in the same manner as provided in the FY 15 MFP Formula, for a certificated classroom teacher pay raise, related employer retirement contributions and other expenditures in order to sustain the certificated teacher pay raise provided for by appropriation in FY 14.

In addition to the \$36.2 M for the per pupil amount increase, the FY 16 MFP includes \$14 M for the following adjustments based on recommendations of the MFP Task Force.

- 1) *Career Development Allocation*: **\$6 M increase in the base budget** to support the development of technical courses required for statewide credentials in city and parish school systems and other public schools in the amount of 6% of the base per pupil cost for each qualifying student course enrollment; a minimum amount of \$25,000 will be provided for each city and parish school system; and a minimum of \$10,000 will be provided for other public schools with students enrolled in grades 9 through 12 (\$10 M total funding).
- 2) *High Cost Services Allocation*: **\$5.4 M increase in the base budget** for the funding pool available to public school systems and schools which substantiate that the prior year cost of services for students with disabilities exceeds three times the most recent state average total expenditure per pupil amount; allocation amounts are limited by the amount budgeted for this initiative and are to be distributed equitably to school systems and other public schools proportional to the total of qualifying applications submitted. Further reflects a change in the distribution methodology from a 4-tier system with varying reimbursement rates to a rate that is the same percent for each school (\$9.4 M total funding).
- 3) *Supplemental Course Allocation*: **\$2.6 M increase in the supplementary funding section** to provide for the cost of secondary course choices specifically approved by BESE. For each school system and other public schools funded through the formula, the allocation shall equal \$35 for each student enrolled in grades 7-12 as of February 1st. (\$10.1 M total funding).

Higher Education Overview

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Budget adjustments based on anticipated revenues from various instruments approved by the House and Senate bring FY 16 total state funding for higher education to \$930.5 M, (\$381.9 M SGF in the base budget, and \$548.6 M in the supplementary budget section.) The supplementary section also includes a \$350 M MOF swap replacing SGF with funding from the Higher Education Initiatives Fund. Deposits into the fund, not to exceed \$350 M, will be made pursuant to Act 40 (SB 93) of 2015, which establishes the Student Assessment for a Valuable Education (SAVE) credit program. The Board of Regents (BOR) shall distribute funds pursuant to the formula for the equitable distribution of such funds to the institutions.

The SAVE program provides a tax credit against income, sales and use, gasoline and special fuel taxes for each student enrolling at a public institution of higher education. The amount of each credit must not exceed the average household tax liability in LA for the total of such taxes as determined and published by the Department of Revenue (DOR). The aggregate amount of credits cannot exceed \$350 M. Credits must be transferred to the BOR and used solely for each student enrolled in a public institution of higher education on and after 7/1/2015. Not later than June 30th the BOR must certify to the department the total headcount enrollment at public institutions of higher education from the previous fall. The DOR then must determine the total amount of the credit and must transfer that amount to the treasurer from the current collections of taxes. Upon receipt of the funds, the treasurer is authorized and directed to transfer or deposit the funds into the Higher Education Initiatives Fund. The secretary of the DOR and the treasurer must report such action to the commissioner of administration and the Joint Legislative Committee on the Budget. (The SAVE credit program sunsets on 6/30/2020.)

FY 16 appropriated funding levels represent a slight reduction in formula funding for the institutions and an increase of \$31.8 M (SGF) for the Office of Student Financial Assistance (OSFA) for the Taylor Opportunity Program for Students (TOPS) and Scholarships/Grant Program.

Act 16 (HB 1) also contains \$104.8 M (SGF) for institution specific initiatives: \$43.2 M is contained in the base budget for LSU Health Sciences Center Shreveport (\$16.1 M) and LSU Health Care Services Division (\$27.1 M) for legacy costs resulting from the transfer of former public hospital facilities to the public/private partnerships; the \$10 M balance to fully fund these expenses is provided in the supplementary funding section.

The balance of \$61.6 M is contained in the supplementary funding section and provides for the following:

- Southern University System (\$4.5 M), Grambling State University (\$2 M), and the LA Community & Technical College System (\$5 M); these funds were eliminated in the Executive Budget.
- Pennington Biomedical Research Center (\$4 M) partially replaces one-time funds including \$1.5 M WISE funding and \$3 M for items that were off-budget.
- LSU Health Sciences Center Shreveport (\$31.1 M) to maintain operational capacity and avoid risk of loss of accreditation due to inadequate funding.
- LSU Health Sciences Center New Orleans (\$3 M) for research programs.
- LSU Ag Center (\$2 M) to help offset rising mandated costs in employee/retiree health insurance and employee retirement contributions.
- LSU Health Sciences Center Shreveport (\$3.7 M) and LSU Health Care Services Division (\$6.3 M) for the balance of legacy costs.

For FY 16 the prior year transfer amount of \$12.15 M from the Community Development Block Grant (CDBG) Program was increased to \$24.3 M and will serve as the sole source of funding for the WISE (Workforce & Innovation for a Strong Economy) initiative in the operating budget; there are no additional funds appropriated in capital outlay. CDBG funds can only be used in 53 of the 64 parishes which were impacted by hurricanes Gustav and Ike, as such there are 9 institutions with a combined 13 campuses located in Bossier, Caddo, Desoto Lincoln, Natchitoches and Webster which will not eligible to participate in the WISE initiative.

HEALTH & HOSPITALS

FY 16 Medicaid

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For FY 16, Medical Vendor Payments (Medicaid) is allocated \$8.38 B. This represents an overall increase of \$270.7 M, or 3.3%, from the FY 15 Existing Operating Budget freeze date (12/1/2014). Total funding includes both base funding and supplementary budget recommendations. Supplementary budget recommendations reflected in Schedule 09-306 (Medicaid) in Act 16 (HB 1) total approximately \$101.8 M in SGF and Statutory Dedication revenues used as state match, which will be used to draw \$155.6 M in federal matching funds for total Medicaid payments of \$257.5 M.

Major Changes from FY 15

The net increase from the FY 15 allocation at 12/1/2014 results from the following significant enhancements and reductions.

Significant Reductions:

- \$89.6 M - Government Efficiency Management Support Savings (GEMS)
- \$11.6 M - Annualization of FY 15 mid year reductions
 - \$6.5 M - Eliminate Louisiana Health Insurance Premium Program
- \$60.1 M - Legacy cost reduction paid through DHH
- \$12.4 M - Various hospital payment reductions (including elimination of hospital outlier payments)

Significant Enhancements:

- \$167 M - Funding projected growth for the Public Private Partnerships
 - \$32 M - 100% Federal Funds from public hospital cost reports for legacy cost
- \$26.9 M - 100% Federal Funds for UPL payments to rural hospitals
- \$9.3 M - Funding for Home and Community Based waivers
- \$2.0 M - Funding for Dental Managed Care plan payments and Medicare Buy-in payments

Note: An additional \$177 M in total funding was added to the Medicaid budget for LSU Physician UPL payments. The source of match (\$67.3 M IAT) is Intergovernmental Transfer (IGT) revenue transferred from the LSU medical schools. DHH has indicated the level of federal match funding (\$110.6 M) associated with the \$177 M appropriation will likely not be drawn in FY 16. Information provided by DHH indicates approximately \$30 M in supplemental UPL payments are anticipated to be paid for the LSU Physician UPL programs in FY 16.

FY 16 Standstill funding:

The FY 16 Medicaid budget contains standstill funding for various programs. Based on increased spending projections reflected in the Medicaid budget request for FY 16, standstill budget funding for certain programs may result in a budget shortfall in FY 16. In addition, the FY 16 Medicaid budget includes \$89 M in government efficiency management savings (GEMS). A specific plan on how these savings will materialize in FY 16 has been requested but has not been provided to the LFO. To the extent such savings do not materialize as a result of missing targeted savings or lack of implementation, the GEMS initiatives may put additional pressure on the FY 16 Medicaid budget. DHH has projected significant growth in the following programs.

- \$237.1 M - Bayou Health
- \$59.8 M - Annualize various Home and Community Based waiver slots
- \$15.7 M - Clawback (Medicare Part D Prescription Drug funding for Dual Eligibles)
- \$13.2 M - Medicare Premiums Part A & B
- \$9.1 M - Long Term Personal Care Services

Medicaid Outlook

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The FY 16 Medicaid budget contains approximately \$166,556,548 M in replacement revenues used as a state match source.

FY 17 Replacement Revenues

The FY 16 Medicaid budget contains approximately **\$166.6 M** in funding from 2 separate sources that will likely have to be partially or entirely replaced with SGF or alternate revenue sources in FY 17. These sources of revenue include Amnesty tax collections projected to be collected in FY 16, and Overcollections Fund revenues. These fund sources are appropriated in the Payments to Private Providers and the Uncompensated Care Costs (UCC) programs, and collectively will draw \$273.8 M in federal match for a total of \$440.4 M in claims payments.

Amnesty Revenues: FY 16 budget reflects \$52 M in amnesty revenues appropriated in the Medical Vendor Payments, Payments to Private Providers Program for FY 16. Any revenues generated through a tax amnesty program are deposited into the 2013 Amnesty Collections Fund. Act 421 established the 2013 Amnesty Collections Fund through the LA Tax Delinquency Amnesty Act of 2013. All \$52 M of these revenues will be used as a state match source to draw federal financial participation for claims payments to private providers. Based on the FY 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for LA Medicaid, \$52 M in amnesty revenues will generate approximately \$85.5 M in federal matching funds for a total of \$137.5 M in Medicaid claims payments. To the extent amnesty tax revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments to providers will be reduced by a proportionate amount (inclusive of federal match).

Overcollections Fund Revenues: FY 16 budget contains \$114.6 M in Overcollections Fund revenues appropriated in Medicaid (Payments to Private Providers and UCC programs). The original source of these funds are anticipated FY 15 collections from various funds that may be carried forward into FY 16 for expenditure. All \$114.6 M of the Overcollections Fund revenues appropriated in Medicaid for FY 16 will be used as a state match source to draw down federal financial participation for claims payments and UCC payments to providers. Based on the FY 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for Medicaid claims and 62.21% (37.79% state match) for UCC, \$114.6 M in Overcollections Fund revenues will generate approximately \$188.3 M in federal matching funds for a total of \$302.9 M in Medicaid claims and UCC payments. To the extent Overcollections Fund revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments and UCC cost payments to providers will be reduced by a proportionate amount (inclusive of federal match). The sources of revenue are reflected below:

FY 16 Revenue Source (used as a state match source)	Amount
State Tax Amnesty Program Revenues	\$52,000,000
Overcollections Fund Revenues	<u>\$114,556,548</u>
FY 15 Non-SGF Match Sources Used as Match	\$166,556,548